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International Sustainability Standards Board
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Dear International Sustainability Standards Board,

Executive Summary

Thank you for inviting comments on the ISSB's recently published Exposure Draft IFRS S1 (*General Requirements for Disclosure of Sustainability-related Financial Information)* and Exposure Draft IFRS S2 (*Climate-related Disclosures*), the **Exposure Drafts**. The G100 supports the disclosure of robust, comparable and decision useful information as part of the urgent response needed to mitigate climate, and other environmental and social risks.

In seeking to support the emergence of widely adopted and consistent standards and by drawing upon some of the existing reporting frameworks, the Exposure Drafts represent a helpful contribution, and we welcome further consultation as these standards are developed.

The G100 is a signatory to the Australian Voice submission representing the voice of combined peak professional, industry, and investor bodies in Australia. In addition to this overarching response, the G100 being Australia's peak body for CFOs and senior finance professionals provide the following comments that build on the Australian Voice submission in areas of particular interest to our membership. Our purpose is to create better businesses for tomorrow, and part of how we deliver this is to pro-actively contribute on a business-to-government level on matters affecting business regulation, financial reporting, corporate governance, capital markets, taxation, and financial management.

We believe that any non-financial or ESG-related disclosure standards should be underpinned by the following considerations:

1) Provide a principles-based framework for the structure and minimum reporting requirements of this regime.

2) Align with relevant existing reporting standards to promote harmonization and convergence, to the greatest extent possible.
3) Align with financial reporting concepts to ensure the entity boundaries for both financial and climate (or other environmental or social reporting) adheres to the same definitions
4) Consider the nature of materiality and recognize that climate, environmental and other social risks, and opportunities vary across industries. The assessment of risks and opportunities should occur as a first step, with the overlay of materiality to investors added second.
5) Have sufficiently clear guidelines that enable preparers to report in a transparent, consistent, and comparable manner. Linking to existing reporting regimes will help limit the need for extensive footnotes and supplemental disclosures and ensure verifiability.
6) Recognize that the understanding and reporting of the less advanced environmental and social factors and the immature nature of the reporting systems and processes that underpin these sustainability-related items prove a challenge for all entities. In the absence of clear reporting methodologies and guidance these areas are not able to meet the same level of assurance as climate-related reporting.
7) Address the broad set of environmental, social, and economic issues that materially impact decision making, starting with climate, and then moving promptly to other topics.

In summary, we believe that S1, as a framework setting standard, could be better focussed on establishing broad principles against which other standards are prepared against, rather than setting the detailed rules in itself. Furthermore, in relation to S2, we have some concern that the magnitude of the requirements limits the ability for assurance to be provided on full compliance. In this respect, other international alternate approaches could link the proposed climate standard to current carbon and energy reporting regimes, for example the GHG Protocol Standards which would allow for comparable and verifiable reporting.

Our consultation process and subsequent assessment of the requirements of the proposed standards is referenced against the request of the Financial Stability Board (FSB) to incorporate the Taskforce on Climate-related Financial Disclosures (TCFD) into the annual filings of entities and to create a climate-related financial standard that can then be used as the foundation for other ESG reporting. We have also referenced feedback we have received from our own stakeholders, investors, and shareholders, regarding what they would like included in the financial filings based on its usefulness in capital allocation decisions.

The feedback from the report preparers is a chorus in support of the need for the adoption of a consistent set of climate standards that allows them to report information once to fulfil different stakeholder needs. Once this requirement has been met expansion of the reporting requirements to other social and environmental areas will then need to occur.

We welcome the ISSB's consultation on the Exposure Drafts for the IFRS sustainability disclosure standards as an important step to meeting these different needs, in particular where there are clear links to financial reporting. The ISSB and the IFRS Foundation are well placed to build upon existing expertise in developing robust, reliable, and independent global standards, and to ensure that any new climate, environment, social or sustainability-related disclosures connect and integrate with existing IFRS standards.

Observations

In response to the ISSB's consultation, we offer the following observations and perspectives, building upon the commentary above, to deliver the information needed to enable informed decision making in relation to climate and other ESG issues. We hope the ISSB will consider these perspectives and continue to consult into the future as these standards evolve.

1) Align with relevant existing reporting standards to promote harmonization and convergence, to the greatest extent possible (IFRS S1 Questions 3, 14)

There is an urgent need for a global set of internationally recognized climate, environment, social and sustainability disclosure standards. There is already a small number of globally recognized standard setters and framework providers, such as TCFD, GRI, SASB and IIRC, whose standards are adopted in varying degrees by companies, investors, regulators, and other stakeholders. We believe global CESG disclosure standards should build upon the work of these existing bodies, enabling continued convergence and promoting widespread global adoption. As noted by the FSB the TCFD framework is the only one of the above frameworks to receive widespread, rapid acceptance by the capital markets sector, hence the FSB request to use this framework first.

We support the ISSB's alignment to several existing standards and frameworks as evidenced by the Exposure Drafts. We encourage the ISSB to continue to promote consolidation and harmonization with existing standards. We believe the ISSB is well suited to establish a comprehensive baseline that can enhance compatibility and interoperability to deliver a global disclosure system. However, this requires the ISSB to undertake additional technical work with other standard setters to align definitions and achieve consistency, particularly in relation to the diverging applications of materiality. As noted above the G100 has concerns regarding the identification of significant sustainability risks and opportunities in the standard, our view is that you assess the risks and opportunities, then identify material disclosures for investors.

It will also require the ISSB to think about practical mechanisms to maintain consistency into the future, including as additional sustainability-related topics are addressed. The ISSB's working group to enhance compatibility between its global baseline and jurisdictional initiatives is an initial step in this direction, but more focus is required.

2) The materiality of sustainability-related risks and opportunities is dynamic and industry-specific (IFRS S1 Question 8)

The ISSB has decided to focus on enterprise value to assess the materiality of sustainability-related risks and opportunities. Our experience with sustainability disclosure finds that materiality is dynamic, with sustainability-related risks and opportunities moving across the materiality spectrum. As a result, under the ISSB's definition, preparers may find themselves 'guessing' primary users' expectations on what constitutes enterprise value.

Our experience has found that the materiality of ESG-related risks and opportunities can vary based on an organization's business model, industry, and geography. Careful consideration should be given to sector and geographical sustainability issues as standards are developed. It is important that the nuances and detail are addressed. We support the disclosure of industry-specific reporting requirements and a common global baseline; however, we are concerned with the volume and usefulness of SASB industry metrics within S2 and consider this could be prohibitive to adoption within jurisdictions, particularly as more domestic compliance standards are developed. Further, the choice of metrics for industries currently reflects the US market and are largely unchanged from the existing SASB standards, as a result they have minimal international relevance and consideration should be given to removing entirely or for industry metrics to be encouraged but not specified.

Alternatively, the appendix B should link requirements to an established regime such as the GHG Protocol which has already been materially adopted domestically in many jurisdictions (because of country level reporting requirements under the Paris Agreement).

3) **Clear guidance is needed to enable comparability and to produce assurance-ready disclosures (verifiability), particularly on definitions, estimates and assumptions (IFRS S1 Questions 1, 2, 7)**

Investors and other stakeholders require disclosures to be comparable to allow informed decision making. Reporting entities require clear guidance to prepare such disclosures, particularly regarding applying consistent definitions, assessing enterprise value, using estimates, and disclosing assumptions, while also avoiding the need for lengthy notes on data limitations. For example, of concern is the misalignment between the reporting entity concept (analogous to the Scope 1 and 2 "Operational Control test") and the ESG reporting boundaries that extend to the full supply chain (eg Scope 3).

Regulators proposing assurance requirements on sustainability disclosures require clear guidance that will facilitate assurance. As noted above, in the climate-related financial reporting area this standard is already defined by the TCFD and GHG Protocol, (in the Australian context also linking to the domestic compliance regime) and allows for immediate inclusion of assurance criteria as this reporting regime already meets the reasonable assurance level. This assurance criteria would link directly via the inclusion of these reporting regimes as Appendix B, instead of the SASB standards.

Currently key terms are not well-defined and left open to interpretation, hence preparers and users may apply different judgments to the meaning of the disclosures, impacting comparability and usability. For example, the Exposure Drafts require an entity to disclose material information about all significant sustainability-related risks and opportunities. It would be beneficial to clarify whether the terms "material" and "significant" have different meanings, or whether instead they are used interchangeably. Other key terms requiring clearer definitions and guidance are "sustainability", "enterprise value" and what information is considered useful or relevant to assess enterprise value (in particular, with regards to paragraph 6(c)).

We observe that there are several challenges to ensuring the comparability and verifiability of sustainability-related information including differences in the underlying methodologies applied, limited disclosures on estimates and assumptions, and preparers applying their own interpretation of the guidance. Also, we note that the Exposure Drafts do not prescribe specific methodologies, which could lead to a variety of methods and assumptions being adopted. While we appreciate the flexibility in approaches, ensuring consistency over time would be key as the standards are subsequently updated. A particular area of concern relates to Scope 3 emissions, which require assumptions, estimations, and proxies as well as input from a variety of internal and external sources.

Another area of concern is the set of provisions under paragraph 54 which refer to the possibility of using metrics associated with disclosure topics from other standard-setting bodies, in the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk or opportunity. This openness results in significant challenges in relation to adoption, comparability, and verifiability of disclosures.

The ISSB should work closely with the IAASB, as the globally recognized assurance standard setter, to ensure that its standards constitute suitable criteria for assurance purposes.

1) **Data quality will improve over time (IFRS S1 Questions 4, 9, 11)**

Preparers today are developing the systems and processes required to provide relevant, transparent ESG disclosures in an effective and efficient way. This includes efforts to improve data quality and to align the robustness of ESG-related financial reporting with that used for traditional financial reporting. Clarity in the linkage to guidance, as discussed above, will support these efforts. However, it will also take time for reporting entities to implement the required systems and to upskill teams to be able to respond in an effective manner. Additionally, it is essential to note that there is inherent uncertainty in sustainability-related disclosures which will not change over time. This includes the underlying completeness and accuracy of data points such as modern slavery and ethical sourcing data and definitions, Scope 3 emissions measurement, challenges to assess completeness for environmental spills, the context-specific nature of social capital disclosures, and the nascent nature-based reporting.

We recommend that the ISSB recognizes the evolving nature of the reporting systems and processes that facilitate ESG-related financial reporting. As these systems further develop, preparers will be able to provide such disclosures in a more complete and timely manner. In the interim, we recommend the ISSB emphasize decision-useful information

Considering the data challenge, we recommend the following:

- Start with the remit being climate first. Establish a C1 standard of principles.
- Require disclosures on the governance processes, controls, and procedures with regards to CESG-related risks and opportunities
- Considering phasing in some of the most challenging requirements over several reporting cycles as the ESG reporting standards evolve, we recommend the ISSB recognize that the data quality underlying such reporting (excluding Scope 1 and 2) will improve over time and consider this evolution in the development of the standards.
- Maintaining the proposed requirements around comparative information (not required on year of adoption),

Ultimately, disclosures are intended to support climate action. The focus should therefore be maintained on decision useful information, which in some cases does not require ‘perfect’ data. If disclosure requirements act as a barrier to setting ambitious targets and the allocation of capital towards sustainable outcomes, they are likely to be counterproductive. Enabling organizations to report in a transparent way despite quality constraints will be essential.

2) **Connectivity between financial and sustainability-related information (IFFRS S1 Question 6, IFRS S2 Question 6)**

The environmental, social, and economic issues covered by sustainability disclosure standards frequently have implications for financial reporting. For example, sustainability factors may impair goodwill, reduce the value and useful life of an asset, or have implications for an entity’s inventory balances.

We welcome the recognition by the ISSB of the need for reporting entities to assess and disclose the connectivity between traditional financial reporting and ESG-related financial reporting. However, we note that there are limited details on when this would be required and how it would be done, in particular with regards to the disclosure of quantitative information (eg potential financial impacts of climate-related risks).

These include a requirement to detail “connection” between sustainability-related reporting and other information including:

- Financial statements - to describe how significant sustainability-related risks and opportunities impact financial statements over time;
- Business model and value chain - to describe the strategies responding to significant sustainability-related risks and opportunities including how they impact the business model and value chain;
- Strategy and cash flows - to include an analysis of the resilience of strategy and cash flows to significant sustainability-related risks and opportunities; and
- Other sustainability-related information - to explain the connection between various sustainability related risks and opportunities.

In our judgement, reporting of "connection" in this way will be incredibly difficult to achieve. For four main reasons, we ask that these elements be excluded from the Exposure Drafts:

1. the proposed reporting of "connection" is extremely complex and therefore both incapable of credible assurance and likely to be so extensively qualified that it would be of no value to users of sustainability reporting. This is, in part, because it would necessitate extensive, multi-dimensional scenario analysis on a potentially wide range of issues. For instance, on each material sustainability-related issue, the analysis would need to consider a range of sustainability outcomes (eg very strong through weak waste diversion from landfill performance), and for each of those outcomes, the analysis would imply a wide range of financial implications for each financial statement. Especially in the early years of the adoption, it is unrealistic to expect this kind of highly sophisticated analysis for reporting purposes, and even if it were done, it is unlikely that the output would help with an assessment as to whether to provide resources to that entity. Instead, this kind of analysis is best done by users of sustainability reporting - drawing upon metrics reported and their own views around strategy and future scenarios.
2. references to "connection" include forward looking dimensions which (in addition to the complexity noted above) would introduce significant new risk for reporting entities. Generally, on account of heightened risk, most reporting entities are reluctant to report forecasts. Including forecasts in the Exposure Drafts will likely prompt extensive opposition among reporting entities and introduce new risks (like, for instance, class action risks).
3. there is no precedent for reporting "connection" in the TCFD framework. The TCFD framework encourages reporting entities to undertake scenario analysis, but not to extend the analysis (for reporting purposes) to financial statements, business model, value chain, strategy, and other sustainability issues. To the extent it is of interest, this is left to the users of reporting.
4. there is no similar reporting of "connection" in the IASB standards. For instance, reporting entities are not required to explain the connection between commercial, strategic, or financial issues and the financial statements over time.

3) **Timing of disclosure standards**

Given the urgency of the climate crisis, as well as significant investor demand for climate-related disclosures, we welcome the Exposure Draft IFRS S2 on climate-related disclosures. We also support the inclusion of disclosure for Scope 1, 2, emissions including reasonable assurance based on the GHG Protocol as this is consistent with current disclosure practices and reflective of the approach needed for preparers and users to comprehensively understand climate-related risks and opportunities. We also support the inclusion of Scope 3 emissions however as noted above these may not meet the same assurance levels due to their estimated nature.

We note that other pressing environmental and social risks are closely integrated with climate and a focus on climate only will not provide the complete ESG reporting standards needed by investors and other stakeholders. Recognising that it will take some time for the standards to be implemented and for reporting to mature, we encourage the ISSB to move forward with other ESG disclosure standards soon after the framework and principles are finalised, leveraging the volumes of ESG disclosure standards used on a voluntary basis today and working in close cooperation with other standard setters to achieve consistency and alignment.

Conclusion

The draft proposed IFRS sustainability disclosure standards represent an important step forward towards ensuring that investors and other organizations have the information needed to address significant ESG-related risks and opportunities. There will, however, likely still be regional variation in reporting requirements, as well as demands from investors and other stakeholders for additional disclosure, addressing an organization's broader impact. Companies will also continue to receive reporting requests from the growing set of ESG ratings and indices. Agility and regular stakeholder engagement with a wide set of individuals and organizations will be key for the ISSB to ensure their standards deliver on user needs and remain relevant.

Thank you for the opportunity to respond to this consultation. We would be delighted to discuss any of our comments in more detail should further input be of assistance.

Kind regards

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